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## CAPACITY BUILDING

### **Sturgis Bank & Trust**



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## PARTICIPANT PROFILES

**Sturgis Bank & Trust** ("Sturgis Bank") is a federally chartered savings bank located in Sturgis, Michigan, with assets totaling approximately \$200 million. While Sturgis Bank offers a variety of non-mortgage products such as auto, home equity and commercial loans, as well as credit cards, its primary focus, mortgage lending, constitutes 89 percent of its total loans. Sturgis Bank offers a variety of mortgage loan products, including FHA, VA and Rural Housing Services insured loans, to its customers and is the number one mortgage originator in St. Joseph County.

Sturgis Bank has been a leader in promoting affordable housing for low- and moderate-

income families. In addition to Sturgis Bank's initiative designed to build the capacity of non-profit organizations to assist more clients with more services that is featured below as the Best Practice portion of this paper, Sturgis Bank also is the only local financial institution to use the U.S. Department of Agriculture's ("USDA") Section 502 Loan Program. Through the use of this program, Sturgis Bank is able to be more flexible in underwriting loans to low- and moderate-income families and first-time home buyers. During 1995 and 1996, Sturgis Bank originated 93 loans totaling \$4.1 million dollars using this program.

## COMMUNITY BACKGROUND

Sturgis Bank's primary lending market is in St. Joseph County, the area in which six of the its eight branches are located. According to 1990 Census data, the total population of St. Joseph County at that time was 58,913. The median housing value in the area was approximately \$44,800, with a median age of 38 years. The U.S. Census Bureau estimates that as of July 1, 1997, the total population of St. Joseph County rose to 61,234.

The major source of employment in St. Joseph County is the private sector, with the manufacturing business accounting for the highest number of jobs. The major employers in the area are manufacturing companies such as Cooper Industries, Ross Labs, Grumman Olson, and Burr Oak Tool and Gauge. Local economic conditions have generally been positive. In 1995, the unemployment rate averaged approximately 3.5 percent.<sup>1</sup>

<sup>1</sup> Development Research Associates, Inc., “Housing Market Report - City of Sturgis,” (April 30, 1996).

## COMMUNITY NEEDS

Sturgis' downtown area has a high concentration of deteriorating and sub-standard housing that was built before 1940. The majority of the downtown residential properties are single-family dwellings owned by absentee landlords and rented to very low-income families. In most cases, these families lack both the financial resources to purchase a home and the basic skills to balance household budgets and maintain their homes.<sup>2</sup> Further, the district had problems with young adults loitering and creating public disturbances.

The Sturgis Chamber of Commerce assembled a committee of community business leaders to address these problems. The committee concluded that the problems were both social and economic and were becoming more commonplace in rural communities. The committee also concluded that the problems were directly related to inadequate housing and a lack of social service programs. The committee's recommendations led to the creation of the Sturgis Neighborhood Program ("Neighborhood Program").

Founded in 1991 as a non-profit entity, the Neighborhood Program took on the challenge of addressing the affordable housing needs of the city's residents, whose incomes were 50-to-80-percent of the area's median. The organizational challenge for the Neighborhood Program was to develop sustainable programs that offered housing services, social and economic support services and property management. However, the non-profit organization lacked the critical financial and technical resources needed to achieve its mission.

<sup>2</sup> Susanne C. Schnell. "Profiles of Partnership Achievements: Street Tested Strategies for Strengthening Neighborhoods." The Social Compact. 1997. P. 124.

## **BEST PRACTICE PROGRAM OR PRODUCT**

In 1991, Sturgis Bank became the first local lender to actively support the Neighborhood Program's effort to promote property rehabilitation and tenant self-reliance. Sturgis Bank realized that it was essential that the Neighborhood Program have the expertise and resources needed to renovate dilapidated housing and provide tenants with mentoring and social services. Therefore, it spearheaded an initiative to build the Neighborhood Program to meet these objectives. Through the proactive efforts of Sturgis Bank's president and management team, the Neighborhood Program has been supplied with planning assistance, mortgage training, technical assistance and financial resources at crucial stages of its development. Sturgis Bank has worked diligently behind the scenes to encourage other lenders to support the Neighborhood Program's community development efforts. For example, KeyBank, FSB, also located in Sturgis, has donated office space and utilities to the program. Sturgis Bank continues to actively participate in many facets of the Neighborhood Program's operation and has representatives on its project, finance, public relations, and advocacy committees. The Neighborhood Program's current President is Tracy Parker, a Vice President and CRA officer at Sturgis Bank.

The Neighborhood Program administers its projects by providing advertising, outreach, pre-application screening, and budget and credit counseling. The Neighborhood Program also works closely with its established tenants to provide home maintenance training, personal financial management and parenting workshops. All project tenants must actively participate in setting and achieving family-improvement

goals that are agreed upon by the Neighborhood Program and the families. The tenants must agree to maintain the interior and exterior of the properties they rent from the Neighborhood Program. Failure to comply with the goal setting program and property responsibilities can result in termination of the tenant's lease.

The main purpose of the tenant agreement is to ensure that the families remain in the program and improve the quality of their lives. Through this agreement the Neighborhood Program administers various comprehensive programs, such as peer counseling, social support services, home ownership education workshops, budget and credit counseling and employment counseling.

Like most non-profit organizations, the Neighborhood Program lacks the paid staff to effectively conduct all of the one-to-one counseling that is needed. In an effort to supplement the services they are offering and to assist their tenants in becoming functioning members of their new community, the Neighborhood Program developed a community mentoring program. Under this program, volunteers from the community act as mentors to the Neighborhood Program's tenants. A critical feature of the program is that each client must meet with his/her mentor once every 60 days. These meetings serve at least two important purposes. First, they enable and encourage individuals from different cultural and ethnic backgrounds to develop closer relationships. Second, the mentor program gives the Neighborhood Program staff an early indication of how likely particular tenants are to fulfill all the terms of their agreement. The Neighborhood Program staff has found that tenants who are successful

in the mentor program generally complete the other portions of the program successfully.

In addition to the financial assistance outlined below, Sturgis Bank holds first-time home buyer seminars on a quarterly basis. The program includes realtors, insurance agents, attorneys, and home inspectors. The seminars focus on the mortgage application process, loan products, down payment and closing cost requirements. Sturgis Bank offers monthly budget and credit counseling classes, as well.

In 1991, Sturgis Bank's Board of Directors approved a \$200,000 line of credit for the Neighborhood Program with interest equal to its cost of funds, plus one percent. In addition to the below market interest rates, Sturgis Bank applied flexible underwriting standards. These funds were used by the Neighborhood Program to purchase and

renovate dilapidated properties in the community. In 1997, Sturgis Bank increased this line of credit to \$300,000.

In 1995, with the assistance of Sturgis Bank, the Neighborhood Program was awarded \$69,000 by the Federal Home Loan Bank of Indianapolis. The money funded the renovation of three single family homes and two duplexes that are currently fully rented. Also in 1995, the Neighborhood Program won a Michigan State Housing Development Authority ("Housing Authority") grant of \$200,000. The grant paid for the renovation of several existing Neighborhood Program properties and for the purchase and rehabilitation of two additional homes in the city. Twenty thousand dollars was designated for administrative expenses. Currently, all of the units are occupied with families whose incomes are 50-to-60 percent of the local median, a Housing Authority requirement.

## EXPERIENCES AND OBSTACLES

The Sturgis Bank line of credit described above has been used by the Neighborhood Program to acquire and rehabilitate distressed properties that are then leased or sold to qualified applicants. For example, one property needed a complete interior renovation and certain structural modifications. The Neighborhood Program purchased the property for \$17,000 and completely renovated the home. Today, the property is appraised at \$55,000, and the four bedroom unit is home to a family of six. The family, whose income is half the local median, pays \$385 a month in rent.

Over the past seven years, Sturgis Bank has consistently provided funding to help cover t

the Neighborhood Program's operational and administrative expenses. It contributes a minimum of \$2,000 a year toward the Neighborhood Program's operational expenses. In addition, Sturgis Bank sponsors an annual golf tournament to raise funds for the non-profit organization. The tournament, which began last year, attracted 100 participants and raised \$5,500. These funds are primarily used to fund some of the Neighborhood Program's social support programs for the community. The Neighborhood Program management credits Sturgis Bank's commitment to their program, as well as Sturgis Bank's efforts to involve other financial institutions and other non-profit organizations as "the driving force" that

has made the Neighborhood Program successful. Currently, Sturgis Bank has several employees actively involved with the Neighborhood Program. For example, the Bank's President and a Senior Vice President serve on the Neighborhood Program's Board of Directors and one employee serves on the Neighborhood Program finance committee.

This support assisted the Neighborhood Program in overcoming what is often the biggest obstacle to the formation and capacity building of a non-profit organization in rural areas – finding entities with both the will and the capacity to foster the development of a fledgling non-profit organization.

## CURRENT STATUS

The Neighborhood Program has successfully established itself as an important force in the town of Sturgis. Through its initiatives, low- and moderate-income families can afford adequate housing and develop self-reliance skills that will make them more productive

median. The Neighborhood Program has renovated and sold two properties to low-income families. A third renovated home is being sold to a former Neighborhood Program tenant. Sturgis Bank holds the mortgages on five of those properties.



*This property was purchased and rehabilitated by the SNP. The home was later sold to a family who successfully completed the mentoring program.*

members of the community. By publicly partnering with the Neighborhood Program in its community development initiatives, Sturgis Bank lent credibility to the non-profit that was critical to its ultimate success and acceptance in the community.

To date, the Neighborhood Program has purchased and rehabilitated seven housing units (four single family and three duplexes), that are rented to qualified families with incomes that are 50 to 60 percent of the area's

In its most ambitious project yet, the Neighborhood Program is working with Reenders Inc., a local developer, to build Eastwood Village. The project will create 80 low- and moderate-income units on a 10-acre site located on the east side of Sturgis. The multi-unit facility will include 50 single family townhomes for low-income families and a 30-unit apartment building for senior citizens. Additionally, architects have designed the facility to include a community

room and an on-site child-care facility. The Neighborhood Program also may relocate to an office at the complex. Monthly rents are expected to be \$350 for one-bedroom units, \$420 for two-bedroom units, and \$485 for three-bedroom units. The annual income for a family of four would be approximately \$23,000 and for an elderly couple, \$18,000. Sturgis Bank is serving as a financial consultant to the Neighborhood Program on this project.

Funding for the project will come from the Housing Authority or similar financing and tax credit equity. The use of tax credits will allow local banks and businesses to help finance the project by purchasing the credits. The goal is to break ground in the fall of 1998 and have the project completed by the spring of 1999. Eastwood Village is significant in that it is the first multiple unit development for the Neighborhood Program.

## **PARTNERSHIPS**

Sturgis Bank has worked closely with the Sturgis Neighborhood Program, the Sturgis Chamber of Commerce, the City of Sturgis, the County of St. Joseph, Federal Home Loan Bank of Indianapolis, the Michigan State

Housing Development Authority, USDA Rural Development, local lenders, attorneys, and community residents.

## ADDITIONAL INFORMATION CONTACTS

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Main Web Site: [www.usda.gov](http://www.usda.gov)

USDA Facilities Locator: [offices.usda.gov](http://offices.usda.gov)

Rural Development Field Offices:

[www.rurdev.usda](http://www.rurdev.usda)

### **ADDITIONAL RESOURCES**

#### **Michigan State Housing Development**

##### **Authority**

401 S. Washington Square

Plaza One Building

Lansing, MI 48909

Internet Home Page: <http://www.voyager.net/mshda/>